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NATIONAL CONFERENCE of STATE LEGISLATURES
The Forum for America's Ideas

TELECOMMUNICATIONS TAX REFORM

**EXECUTIVE COMMITTEE TASK FORCE ON STATE AND LOCAL TAXATION
OF TELECOMMUNICATIONS AND ELECTRONIC COMMERCE**

WHEREAS, the elimination of boundaries, new technologies and increased convergence and competition in telecommunications makes it critical to simplify and reform state and local taxes to ensure a level playing field, to enhance economic development, and to avoid discrimination; and

WHEREAS, until 1984, telephone service was a highly regulated service generally subject to tax under statutes applicable to "public utilities"; and

WHEREAS, such taxes in the form of gross receipts, franchise and other industry-specific taxes were passed on to consumers as part of the regulatory rate setting process; and

WHEREAS, convergence and technology have radically expanded telecommunications, blurring distinctions between telephone and Internet service in some instances; between cable, wireless, satellite, and wireline; between long distance and local service and between telephone and other forms of communications and information services;

WHEREAS, in most states, the deregulation of the industry was not accompanied by corresponding elimination, simplification, or restructuring of taxes that have historically been levied on regulated companies; and

WHEREAS, the combination of state and local taxes and fees imposes significant administrative costs on telecommunications companies, most of which operate in multiple states and localities; and

WHEREAS, this administrative burden forces such companies to incur substantial expenditures to satisfy compliance and systems requirements, resulting in higher costs of service for consumers without any corresponding benefit to state or local governments; and

WHEREAS, state and local tax burdens on telecommunications companies and their customers are significantly above those imposed on most other types of industries and services; and

WHEREAS, imposing these higher tax burdens on telecommunications services provided by "telecommunications providers" while imposing lower and even no tax burdens on similar services sold by non-traditional providers places governments in the position of picking winners and losers in the marketplace; and

WHEREAS, enhanced access to advanced telecommunications provides important economic, safety, and social benefits to citizens and businesses in the new, global economy; and

WHEREAS, high administrative costs and tax burdens imposed on the telecommunications industry create an impediment to entry for new service providers, disincentives to deploy infrastructure and increase the cost to consumers of access to advanced telecommunications services.

NOW, THEREFORE BE IT RESOLVED THAT, the National Conference of State Legislatures encourages states to work together with local governments and providers in their efforts to simplify and modernize state and local taxes on telecommunications based upon the following principles:

- 1) **Tax Efficiency:** State and local taxes and fees imposed on telecommunications services should be substantially simplified and modernized to minimize confusion and ease the burden of administration on taxpayers and governments.
- 2) **Competitive Neutrality:** State and local transaction taxes and fees imposed on telecommunications services should be applied uniformly and in a competitively neutral manner upon all providers of telecommunications and similar services, without regard to the historic classification or regulatory treatment of the entity.
- 3) **Tax Equity:** Under a uniform, competitively neutral system, industry-specific telecommunications taxes are no longer justified.
- 4) **Tax Fairness:** With the blurring of distinctions between various services and technologies, state and local governments must strive to set tax burdens on telecommunications services, property and providers that are no greater than those tax burdens imposed on other competitive services and the general business community.
- 5) **Local Government Impacts:** States need to include provisions to mitigate potential local government revenue impacts associated with telecommunications tax reform.
- 6) **Economic Development:** States need to simplify, reform and modernize state and local telecommunications tax systems to encourage economic

development, reduce impediments to entry, and ensure access to advanced telecommunications infrastructure and services throughout the states.

- 7) **State Sovereignty:** NCSL will continue to oppose any federal action or oversight role which preempts the sovereign and Constitutional right of the states to determine their own tax policies in all areas, including telecommunications.

Unanimously adopted by the NCSL Executive Committee Task Force on State and Local Taxation of Telecommunications and Electronic Commerce on Monday, July 19, 2004.

Unanimously adopted by the full NCSL Executive Committee on Tuesday, July 20, 2004.